

POSTED
APR 22 1998

S. C. PUBLIC SERVICE COMMISSION
RECEIVED
APR 22 1998
RECEIVED

S. C. PUBLIC SERVICE COMMISSION
RECEIVED
APR 22 1998
UTILITIES DEPARTMENT

TESTIMONY OF R. H. HALL, JR.

FOR

DUKE ENERGY COMPANY

SCPSC DOCKET NO. 98-003-E

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH
DUKE ENERGY COMPANY.

A. My name is R. H. Hall, Jr., my business address is
400 South Tryon Street, Charlotte, North Carolina.

I am General Manager, Fuels Procurement and
Transportation for Duke Energy Company.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND
PROFESSIONAL AFFILIATIONS.

A. I attended the West Virginia Institute of Technology
and graduated with a BS in Engineering in 1964.
During college, I worked for a coal company and also
for a mining equipment company. I joined the
Company as a fuel trainee in the summer of 1964,
progressed through various fuel purchasing
positions and was appointed to my present position in
March, 1978. I am a member of the North Carolina
Coal Institute and the American Society of Mining,
Metallurgical and Petroleum Engineers, Inc.

RETURN DATE: OK MD
SERVICE: OK MD

1 Q. MR. HALL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS
2 COMMISSION?

3 A. Yes, I have testified in connection with the
4 applications by the Company to adjust its electric
5 rates and charges based solely on changes in the cost
6 of fuel. My last testimony was presented in Docket
7 No. 97-005-E.

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
9 PROCEEDING?

10 A. The purpose of my testimony is to furnish information
11 relating to our fuel purchasing and practices for the
12 period April, 1997 - March, 1998. My testimony will
13 also include a summary of our fuel purchases and fuel
14 inventories.

15 Q. MR. HALL, CAN YOU PROVIDE A SUMMARY OF DUKE'S FUEL
16 PROCUREMENT PRACTICES?

17 A. Yes. The Company continues to follow the same
18 procurement practices discussed in previous
19 testimony, and a summary of those practices is as
20 follows:

- 1 1. Estimating Fuel Requirements. Fuel requirements
2 are estimated annually based on input data from
3 several departments, including Forecasting, System
4 Planning, Nuclear Production, Fossil Production,
5 Operating and Fuel Purchasing.
- 6 2. Inventory Requirements. Monthly and annual fuel
7 inventory requirements for each station and the
8 system are determined after considering the
9 Company's purchasing and production requirements.
10 Final review and approval are provided by Duke's
11 Executive Committee.
- 12 3. Covering of Fuel Requirements. On a monthly
13 and annual basis, reviews are made of existing
14 contracts and projected consumption to determine
15 the need for additional spot or contract supplies.
- 16 4. Qualified Suppliers. A list of qualified
17 suppliers is maintained along with detailed
18 historical records of their performance and
19 capabilities as to quantity, quality, loading
20 capacities, etc. Invitations to bid are
21 distributed to all qualified suppliers to cover
22 additional or future contract needs.

- 1 5. Bid Evaluation. Contracts are awarded after a
2 complete evaluation cycle including an on-site
3 visit to the source to determine the capabilities
4 of the suppliers.
- 5 6. Spot Purchases. To supplement our fuel supply,
6 entry into the spot market is made on a month-by-
7 month basis.
- 8 7. Expediting. All orders are expedited (monitored)
9 closely as to performance against schedule
10 quantity, quality, and proper bills of lading,
11 etc. This expediting data is used to prepare a
12 monthly performance report on each supplier.
- 13 8. Quality Control. The Company samples and analyzes
14 all coal received at each station. These analyses
15 are monitored closely against contract
16 specifications and serve as the basis for final
17 price determinations. All coal is also weighed at
18 each station to verify freight charges assessed by
19 the railroads.

1 Q. YOUR TESTIMONY INCLUDES EXHIBITS. WERE THESE
2 EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND
3 UNDER YOUR SUPERVISION?

4 A. Yes. The exhibits were either prepared by me or at
5 my direction and under my supervision.

6 Q. WHAT IS SHOWN ON HALL EXHIBIT 1?

7 A. Hall Exhibit 1 is a summary of certain fuel
8 statistics for each fuel category for the test period
9 April, 1997 through March, 1998. The Exhibit
10 includes the quantities consumed, quantities
11 purchased, and the weighted average price for each
12 fuel. The cost for coal is further broken down to
13 show the average mine and freight components as well
14 as the delivered cost per million BTUs.
15 Both oil and natural gas prices showed a small
16 decrease when compared to prices for the previous
17 twelve-month period. Oil prices averaged \$0.09 less
18 per gallon and natural gas was \$0.13 less per MCF.
19 Prices for both of these fuels remained relatively
20 flat over the entire period. Temperatures were
21 warmer than normal during the winter heating season
22 causing demand and the corresponding prices to be
23 less than the previous year.

1 Uranium prices remained relatively flat over the
2 period with an average increase of \$0.66 per pound.
3 The average delivered cost per ton of coal decreased
4 \$0.86 during this test period when compared to the
5 previous twelve months. The mine price was \$0.72
6 less per ton while the average freight rate declined
7 \$0.14 per ton. The cost per million BTUs decreased
8 \$0.03. In fact, the delivered cost per million BTUs
9 for the year 1997 was \$1.3809 and this was the lowest
10 coal cost we had experienced since 1977.
11 Mine prices continued to decrease as we replaced
12 older contracts which had escalation provisions with
13 short term market based contracts with fixed prices.
14 We also used multi-month spot purchases to take
15 advantage of soft markets when there was excess coal
16 production during the last half of 1997.
17 The large quantity of coal consumed helped to lower
18 our freight costs. Our rail contracts contained
19 volume rates whereby the per ton costs decreased as
20 the volume increased.
21 Spot purchases were in excess of 5 million tons or
22 approximately 31% of our total receipts. Spot coal
23 prices decreased during the late Spring of 1997,

1 remained relatively level during the balance of 1997,
2 but, increased in January, 1998. Present prices are
3 in the \$23.50 - \$24.00 range.

4 Q. WHAT IS HALL EXHIBIT 2?

5 A. Hall Exhibit 2 shows inventories for coal, oil and
6 uranium (or uranium equivalents) at the beginning and
7 end of this reporting period.

8 Uranium is significantly higher than March 1997 due
9 to scheduled reload batches over the next eighteen
10 months. The pounds shown on Exhibit 2 represents the
11 uranium in various stages in the fuel process. This
12 inventory will decrease during the next twelve
13 months.

14 Oil inventories are much lower now than what we had
15 at the beginning of this period. A lower inventory
16 is prudent since the heating season has ended and
17 natural gas should be more readily available during
18 the summer months. We will gradually increase oil
19 supplies prior to next winter when prices will
20 reflect the heating season demand.

21 Coal inventories are higher as we get ready for the
22 higher summer consumption. We have been careful to
23 slowly build inventories without placing undue
24 pressure on the spot market.

1 Q. WERE THERE ANY CHANGES TO DUKE'S COAL TRANSPORTATION
2 RATES DURING THIS PERIOD?

3 A. Yes. All CSX rates increased 0.75% effective
4 July 1, 1997.

5 Both the Norfolk Southern and CSX contracts had
6 expiration dates of December 31, 1997. A new
7 two-year contract was negotiated with each railroad
8 Some rates were lower than previous contract rates,
9 however, rates covering shipments from the NS were
10 higher. We expect the average freight cost per ton
11 on all the tonnage to be higher during the next
12 period.

13 Q. WHAT DO YOU FORESEE AS TO FUEL PRICES AND
14 AVAILABILITY IN THE NEXT TWELVE MONTHS?

15 A. We expect all fuels to be readily available in
16 sufficient quantities to meet forecasted demand.
17 Demand for both coal and natural gas should continue
18 to be strong. Demand for low sulfur coals should
19 increase as we near the Phase II compliance
20 requirements of the Clean Air Act in the year 2000.
21 Since our normal purchase area is the eastern low
22 sulfur coal fields, we expect to have more
23 competition for the same coals, hence some upward
24 price movement next year.

25 Q. MR. HALL, DOES THAT CONCLUDE YOUR TESTIMONY?

26 A. Yes, it does.

HALL EXHIBIT 1

FUEL PURCHASES AND CONSUMPTION

APRIL, 1997 - MARCH, 1998

COAL

Tons Burned	16,275,526
Tons Purchased	16,384,033
Avg. Mine Price/Ton	\$26.04
Avg. Freight Price/Ton	\$ 8.20
Avg. Delivered Price/Ton	\$34.24
Avg. Delivered Price/10 ⁶ BTU	\$1.3787

OIL

Gallons Consumed	10,276,820
Gallons Purchased	6,822,049
Avg. Price/Gallon Purchased	\$0.58

NATURAL GAS

Mcf. Purchased	3,314,673
Avg. Price/Mcf.	\$3.22

URANIUM

Pounds Purchased	3,579,569
Avg. Price/Pound	\$14.94

HALL EXHIBIT 2
FUEL INVENTORIES

	<u>3/31/97</u>	<u>3/31/98</u>
COAL (TONS)	1,684,583	1,858,552
#2 OIL (GALLONS)	13,961,692	10,503,998
URANIUM (POUNDS)	886,102	1,709,721